

R.10-12-007

Concurrence of Commissioner Mark J. Ferron and President Michael R. Peevey on Item 29, D.13-10-040, Decision Adopting Energy Storage Procurement Framework and Design Program

Energy storage has the potential to be a ‘game changer’ for our electric grid. Commissioner Peterman has done a commendable job in providing vision and leadership for the growing storage market. Today’s decision marks an important first step for this program.

The 1,325 MW target set by this decision will not be easy to meet. It will be a significant investment in our grid. Investing in storage from now to 2020 at the ambitious levels proposed here is the sound and reasonable insurance policy we need to prevent catastrophic climate change. By 2050, we need to reduce our emissions by 80% from 1990 levels. Storage plays a crucial role in supporting the carbon-free grid we need by 2050. We must be ambitious to jump start technology innovation and arm ourselves with the storage technology we need to build a cleaner grid.

Rather than re-state the many virtues of the decision, we want to express some views - - some constructive suggestions - - on what we see as possible next steps.

First, because storage is envisioned as a resource to improve grid reliability, the utilities should acquire storage based on their system’s needs. The decision grants the utilities a large amount of flexibility to meet their procurement targets. We fully support the decision’s stated goals of (1) grid optimization, (2) integration of renewable energy and (3) reduction of greenhouse gas emissions. Consistent with these goals, as we procure storage, we should evaluate the projects on whether or not they fulfill a system need at a reasonable cost.

For example, in June this year, the Resource Adequacy proceeding created a flexible capacity reporting requirement for 2014. Over next year, in parallel to the development of the storage procurement plans, we will be finalizing the flexible capacity procurement requirement for 2015. Flexible RA is one value that storage may provide. While it is possible that not every storage facility will be able to provide flexible capacity for RA purposes, we think it is critical for the utilities to demonstrate whether the storage they procure fits this need or other needs. We are not asking the utilities to buy storage just for the sake of having storage; rather, it should be a part of the overall plan.

We are very supportive of opening a future proceeding since this decision does not and cannot address everything that we need to address in this very complex and fast moving realm. To make a comparison, this is only our second decision on storage; by contrast, so far, the RPS program has issued over 40 decisions to get where we are today.

As with any new procurement program, there are bound to be surprises and market certainty is critical. So here are three items that we need to closely monitor:

- **Large-scale Pumped Hydro Storage.** We understand Commissioner Peterman's focus on emerging technologies and market transformation in this proposed decision and the quandary it puts valuable bulk storage systems, like pumped hydro. This Decision orders Commission Staff to hold a workshop on this topic. We are concerned that ratepayers may be missing an opportunity to benefit by limiting the size of pumped storage under this decision. We hope that a fix can be found. We are confident that we can evaluate and recognize the true value of bulk storage through this workshop and further work in the long term procurement planning proceeding with Commissioner Florio.
- **Streamlining the Procurement Mechanism.** We believe that we could reduce potentially cost-prohibitive transaction costs associated with the RFOs by creating a pro-forma or other standardized contracting methods. Standardization will help enable small technologies and less experienced developers to participate in a cost-effective manner. In time, we might consider the adoption of a RAM or a RE-MAT type program or something more specific to the storage arena.
- **Customer-sited Storage.** We also have concerns with the customer-sited category of storage targets. First, there is a lack of discrete mechanisms to sustainably meet the targets. Second, the flexibility given to transmission- and generation-sited storage was not given to customer-sited storage. Most of the customer-sited storage projects are currently supported by our Self-Generation Incentive Program and by Permanent Load Shifting. If these programs expire, it is unclear how customer-sited energy storage targets will be met. We will continue to work with our fellow commissioners and stakeholders to ensure that we have set attainable and meaningful targets. Additionally, there may be situations where utility-owned or –contracted customer-sited storage could be a competitive solution; we encourage our utilities to evaluate these options.
- **Bid Evaluation.** We should develop bid evaluation methodologies and standards of review for contracts so that we add the highest value assets to our electric system.

We wish to offer our thanks to Commissioner Peterman, ALJs Yip-Kikugawa and Kersten and to the Commission staff. We look forward to seeing how this market segment evolves.

Dated October 17, 2013 at Redding, CA

Mark J. Ferron
Commissioner

Michael R. Peevey
President